53d Congress, 3d Session. HOUSE OF REPRESENTATIVES. Report No. 1824.

ISSUE AND SALE OF BONDS.

February 13, 1895.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed.

Mr. Wilson, of West Virginia, from the Committee on Ways and Means, submitted the following

REPORT:

[To accompany H. Res. 275.]

The Committee on Ways and Means, to whom was referred the message of the President of the United States communicated to Congress on the 8th day of February, having had the same under consideration, herewith report a joint resolution authorizing the Secretary of the Treasury to issue, sell, and dispose of bonds of the United States to an amount not exceeding $65,116,275, bearing interest at a rate not exceeding 3 per cent per annum, principal and interest payable in gold coin of the present standard of weight and fineness, said bonds to be made payable not more than thirty years after date.

The message of the President, which is herewith appended, communicates to the House the condition of the reserve of gold in the Treasury available for the redemption of the Government's legal-tender notes and the maintenance of the parity of its coin circulation, and the reasons which compel at the present time an issue of bonds to replenish and maintain that reserve; also the general terms of a contract, made under authority of section 3700 of the Revised Statutes, for the purchase and delivery to the Treasury of a sum slightly in excess of $65,000,000 of gold coin, to be added to the stock in the Treasury, which amounts to only $42,217,081.95 at the present time.

The committee have had the benefit of a conference with the Secretary of the Treasury, who exhibited to them the original contract entered into by himself on the 8th day of February and explained its details to them. A full and complete copy of said contract is hereto added. From a reading of this paper it will be seen that the arrangement of the Secretary with the parties to this contract effects the purchase of 3,500,000 ounces of standard gold coin of the United States (amounting to $65,116,275), at least one-half of which shall be obtained in and shipped from Europe.

For this gold coin he has contracted to issue to the parties furnishing it, under authority of the act for the resumption of specie payments, approved January 14, 1875, 4 per cent thirty-year coin bonds of the United States, at a price which realizes to them interest at the rate of 3¾ per cent. But the Secretary of the Treasury has reserved the right, if authority be given him by Congress, to substitute at par any bonds of the United States bearing 3 per cent interest, of which the principal and interest shall be specifically payable in United States gold coin of the present weight and fineness, said substitution, however, to be made within ten days from the date of the contract.

It is the object of the joint resolution herewith reported to give to the Secretary of the Treasury authority to substitute such bonds to the amount of the contract.

The saving to be effected to the Government, as set forth in the President's message, will be $539,159 per year for every year the 3 per cent bonds run, and of the amount of $16,174,770 should they run thirty years. As it is not believed by the committee that the issue of bonds specifically payable in gold will impose any additional burden or liability upon the Government than if t ey are made payable in coin, under its pledge and policy to preserve the parity of the coins in the two metals, the saving of this large amount becomes a matter of substantial moment and advantage to the Government; and as the parties to take the bonds are under contract to furnish gold coin for them it seems no hardship on the Government to contract to pay them back in the same coin that they furnish to it.

APPENDIX.

PRESIDENT'S MESSAGE.

To the Congress of the United States:

Since my recent communication to the Congress, calling attention to our financial condition and suggesting legislation which I deemed essential to our national welfare and credit, the anxiety and apprehension then existing in business circles have continued.

As a precaution, therefore, against the failure of timely legislative aid through Congressional action, cautious preparations have been pending to employ to the best possible advantage, in default of better means, such executive authority as may, without additional legislation, be exercised for the purpose of reenforcing and maintaining in our Treasury an adequate and safe gold reserve.

In the judgment of those especially charged with this responsibility, the business situation is so critical and the legislative situation is so unpromising, with the omission thus far on the part of Congress to beneficially enlarge the powers of the Secretary of the Treasury in the premises, as to enjoin immediate executive action with the facilities now at hand.

Therefore, in pursuance of section 3700 of the Revised Statutes, the details of an arrangement have this day been concluded with parties abundantly able to fulfill their undertaking, whereby bonds of the United States, authorized under the act of July 14, 1875, payable in coin thirty years after their date, with interest at the rate of 4 per cent per annum, to the amount of a little less than $62,400,000, are to be issued for the purchase of gold coin, amounting to a sum slightly in excess of $65,000,000, to be delivered to the Treasury of the United States, which sum, added to the gold now held in our reserve, will so restore such reserve as to make it amount to something more than $100,000,000. Such a premium is to be allowed to the Government upon the bonds as to fix the rate of interest upon the amount of gold realized at 3¾ per cent per annum. At least one-half of the gold to be obtained is to be supplied from abroad, which is a very important and favorable feature of the transaction.

The privilege is especially reserved to the Government to substitute at par, within ten days from this date, in lieu of the 4 per cent coin bonds, other bonds in terms payable in gold and bearing only 3 per cent interest, if the issue of the same should in the meantime be authorized by the Congress.

The arrangement thus completed, which, after careful inquiry, appears in present circumstances and considering all the objects desired to be the best attainable, develops such a difference in the estimation of investors between bonds made payable in coin and those specifically made payable in gold in favor of the latter as is represented by three-fourths of a cent in annual interest. In the agreement just concluded the annual saving in interest to the Government, if 3 per cent gold bonds should be substituted for 4 per cent coin bonds under the privilege reserved, would be $539,159, amounting in thirty years, or at the maturity of the coin bonds, to $16,174,770.

Of course there never should be a doubt in any quarter as to the redemption in gold of the bonds of the Government which are made payable in coin. Therefore

the discrimination, in the judgment of investors, between our bond obligations payable in coin and those specifically made payable in gold is very significant. It is hardly necessary to suggest that, whatever may be our views on the subject, the sentiments or preferences of those with whom we must negotiate in disposing of our bonds for gold are not subject to our dictation.

I have only to add that in my opinion the transaction herein detailed for the information of the Congress promises better results than the efforts previously made in the direction of effectively adding to our gold reserve through the sale of bonds; and I believe it will tend, as far as such action can in present circumstances, to meet the determination expressed in the law repealing the silver-purchasing clause of the act of July 14, 1890, and that, in the language of such repealing act, the arrangement made will aid our efforts to "insure the maintenance of the parity in value of the coins of the the two metals and the equal power of every dollar at all times in the markets and in the payment of debts."

GROVER CLEVELAND.

EXECUTIVE MANSION, *February 8, 1895.*

CONTRACT.

This agreement entered into this eighth day of February, 1895, between the Secretary of the Treasury of the United States, of the first part, and Messrs. August Belmont and Company, of New York, on behalf of Messrs. N. M. Rothschild and Sons, of London, England, and themselves, and Messrs. J. P. Morgan and Company, of New York, on behalf of Messrs. J. S. Morgan and Company, of London, and themselves, parties of the second part.

Witnesseth: Whereas it is provided by the Revised Statutes of the United States (section 3700) that the Secretary of the Treasury may purchase coin with any of the bonds or notes of the United States authorized by law, at such rates and upon such terms as he may deem most advantageous to the public interests; and the Secretary of the Treasury now deems that an emergency exists in which the public interests require that, as hereinafter provided, coin shall be purchased with the bonds of the United States, of the description hereinafter mentioned, authorized to be issued under the act entitled "An act to provide for the resumption of specie payments," approved January 14, 1875, being bonds of the United States described in an Act of Congress approved July 14, 1870, entitled "An act to authorize the refunding of the national debt."

Now, therefore, the said parties of the second part hereby agree to sell and deliver to the United States three million five hundred thousand ounces of standard gold coin of the United States, at the rate of $17.80441 per ounce, payable in United States four per cent thirty-year coupon or registered bonds, said bonds to be dated February 1, 1895, and payable at the pleasure of the United States after thirty years from date, issued under the acts of Congress of July 14, 1870, January 20, 1871, and January 14, 1875, bearing interest at the rate of four per cent per annum, payable quarterly.

First.—Such purchase and sale of gold coin being made on the following conditions:

(1) At least one-half of all coin deliverable hereinunder shall be obtained in and shipped from Europe, but the shipments shall not be required to exceed three hundred thousand ounces per month, unless the parties of the second part shall consent thereto.

(2) All deliveries shall be made at any of the subtreasuries or at any other legal depository of the United States.

(3) All gold coins delivered shall be received on the basis of twenty-five and eight-tenths grains of standard gold per dollar, if within limit of tolerance.

(4) Bonds delivered under this contract are to be delivered free of accrued interest, which is to be assumed and paid by the parties of the second part at the time of their delivery to them.

Second.—Should the Secretary of the Treasury desire to offer or sell any bonds of the United States on or before the first day of October, 1895, he shall first offer the same to the parties of the second part; but thereafter he shall be free from every such obligation to the parties of the second part.

Third.—The Secretary of the Treasury hereby reserves the right, within ten days from the date hereof, in case he shall receive authority from Congress therefor, to substitute any bonds of the United States, bearing three per cent interest, of which the principal and interest shall be specifically payable in United States gold coin of the present weight and fineness for the bonds herein alluded to; such three per cent bonds to be accepted by the parties of the second part at par, i. e.: at $18.60465 per ounce of standard gold.

Fourth.—No bonds shall be delivered to the parties of the second part, or either of them, except in payment for coin from time to time received hereunder; whereupon the Secretary of the Treasury of the United States shall and will deliver the bonds as herein provided, at such places as shall be designated by the parties of the second part. Any expense of delivery out of the United States shall be assumed and paid by the parties of the second part.

Fifth.—In consideration of the purchase of such coin, the parties of the second part, and their associates hereunder, assume and will bear all the expense and inevitable loss of bringing gold from Europe hereunder; and, as far as lies in their power, will exert all financial influence and will make all legitimate efforts to protect the Treasury of the United States against the withdrawals of gold pending the complete performance of this contract.

In witness whereof the parties hereto have hereunto set their hands in five parts this 8th day of February, 1895.

J. G. CARLISLE,
Secretary of the Treasury.

AUGUST BELMONT & CO.,
On behalf of Messrs. N. M. Rothschild & Sons, London, and themselves.

J. P. MORGAN & CO.,
On behalf of Messrs. J. S. Morgan & Co., London, and themselves.

Attest:
W. E. CURTIS.
FRANCIS LYNDE STETSON

VIEWS OF THE MINORITY.

Owing to the limited time allowed for preparing a report, it being necessary to file the report within a few hours after the bill was agreed upon, the undersigned dissenting members of the committee are precluded from presenting their views with that elaboration which the importance of the subject would otherwise justify; but they beg to state briefly the most important reason which lead them to disapprove of the measure recommended by the majority of the committee.

First. The issue of bonds of any kind is only needed to replenish the gold reserve, and the gold reserve only needs replenishing because the Secretary of the Treasury redeems United States notes and Treasury notes in the kind of coins selected by the note holder. The note holder has no legal right to choose the coin in which the obligation shall be redeemed, but has been permitted to exercise that right by a policy inaugurated by the Treasury Department at or soon after the date of the resumption of specie payment. The opinion of the Secretary of the Treasury, Mr. Carlisle, recently given is clear upon this point. On the 21st of January, 1895, a statement was made before the House Committee on Appropriations by Secretary Carlisle, in a printed report of which will be found the following question and answer:

> Mr. SIBLEY. I would like to ask you (perhaps not entirely connected with the matter under discussion) what objection there could be to having the option of redeeming either in silver or gold lie with the Treasury instead of the note holder?
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> Secretary CARLISLE. If that policy had been adopted at the beginning of resumption—and I am not saying this for the purpose of criticising the action of any of my predecessors, or anybody else—but if the policy of reserving to the Government, at the beginning of resumption, the option of redeeming in gold or silver all its paper presented, I believe it would have worked beneficially, and there would have been no trouble growing out of it, but the Secretaries of the Treasury from the beginning of resumption have pursued a policy of redeeming in gold or silver, at the option of the holder of the paper, and if any Secretary had afterwards attempted to change that policy and force silver upon a man who wanted gold, or gold upon a man who wanted silver, and especially if he had made that attempt at such a critical period as we have had in the last two years, my judgment is it would have been very disastrous. There is a vast difference between establishing a policy at the beginning and reversing a policy after it has been long established, and especially after the situation has been changed.

No one contends that the executive department of the Government can bind the Government or pledge its faith and credit by the adoption of such a policy. To so hold would be to assert that the Executive can make and repeal laws without the concurrence of the Senate and House of Representatives. Believing that the Secretary of the Treasury has now by law the right to redeem legal-tender notes by the payment of either gold or silver coin, whichever is most convenient for the Government, and believing that the exercise of this discretion by the Secretary of the Treasury is absolutely necessary to protect the Government from organized and unorganized raids upon the coin reserve, we are not will-

ing to indorse, directly or by implication, the administrative policy which has precipitated the present financial conditions. Neither are we willing, by authorizing bonds for the purchase of gold, to pledge the Government to a policy which discriminates against silver as a standard money and recognizes gold as the only money of ultimate redemption. So long as the note holder is allowed to choose the coin in which he is to be paid, so long will it be futile to attempt to maintain a gold reserve.

Recent experience shows that gold secured by the issue of bonds is at once drawn out by those who are interested in having more bonds issued, and thus the public debt is increased to the detriment of the taxpayer and for the benefit only of those who desire a safe investment for surplus funds. We do not believe that any real advantage will be gained by securing the gold abroad.

It is urged that a change of policy at this time will cause embarrassment. If that be true the blame must be borne by those who first inaugurated the policy and by those who have adhered to it in spite of the clear intent and letter of the law. We have only to consider whether it is wiser to resume an exercise of rights preserved by existing laws or to aggravate our present difficulties by delaying relief and entering upon new experiments. We have no hesitation in declaring it as our conviction that there is no remedy permanent in character or promising in results except an immediate exercise by the Secretary of the Treasury of the right to redeem United States notes and Treasury notes in standard silver coin whenever it is more convenient for the Government to do so, and we further believe that the greatest dangers which can possibly attend such a course are infinitely less than the evils which are certain to follow an adherence to the present policy.

Second. If we were willing to authorize the issue of bonds at this time to purchase gold, we would still be opposed to bonds payable specifically in gold, because an issue of such bonds would either pledge the Government to the redemption of all obligations in gold or make a discrimination against coin obligations now outstanding. There is no question that the issue of gold bonds now would at once be followed by a demand for an act making existing bonds payable in gold, and it would be urged that it would be disastrous to depart from the policy of gold bonds when once inaugurated, just as it is now urged that it will be disastrous for the Government to resume a discretion which has been temporarily surrendered to the noteholder.

It is impossible to overestimate the evil influence which would be exerted by the issue of gold bonds by the Government, because such action would naturally and necessarily encourage, if not actually compel the issue of gold bonds by all public and private corporations and the making of gold contracts by individuals generally. Such an increased strain upon gold would manifest itself in a further rise in the purchasing power of the dollar and in a further and distressing addition to the load of debt now borne by the people.

Third. If we were in favor of an issue of gold bonds we would still be opposed to the issue of bonds running for thirty years. According to the terms of the contract the bond purchasers agree to accept 3 per cent gold bonds without mentioning the date of payment, but it can not be doubted that the purchasers will insist upon a thirty-year bond if discretion is given to the Secretary of the Treasury to issue such a bond.

Fourth. If we were willing to authorize the issue of thirty-year gold bonds we would still be opposed to recognizing or ratifying a contract

as harsh in its terms and as imperious in its demands as the contract insisted upon by the bond purchasers.

Fifth. If we were willing to approve of such a contract under ordinary circumstances we would still be opposed to approving it when made by a sovereign government with foreign financiers under circumstances which suggest a desire upon the part of the subjects of another country to purchase a change in the financial policy of this nation for a sum stated.

These are some of the reasons which lead us to withhold our support from the measure recommended by a majority of the committee, and they are, in our judgment, sufficient to justify our dissent. If further reasons were necessary they might be found in the fact that the contract provides for the sale of coin bonds at about 104½, which would sell in the market at about 119; in the fact that the contract agrees to sell thirty-year gold bonds, drawing 3 per cent interest, for less than the Government three months ago sold twelve-year coin bonds, and in the additional fact that foreign investors are by the contract given a preference over American investors in the purchase of any bonds which may be issued before next October, and are also given a preference now over the American investors who but a short time ago stood ready to purchase more bonds than were then offered.

WILLIAM J. BRYAN.
JUSTIN R. WHITING.

Mr. MCMILLIN and Mr. WHEELER, of Alabama, while dissenting from the majority of the committee, reserve an expression of their views until they have an opportunity to present them more at length upon the floor of the House.